

Notes to Financial Statements

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CITY OF CINCINNATI, OHIO

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Cincinnati is a political subdivision of the State of Ohio. It is governed with the powers of home rule by a directly elected mayor with a four-year term and a council of nine members who are elected at large for two-year terms. In 2001, Cincinnati converted from a city manager-council form of government, through which it had operated since 1926, to a strong mayor-council form of government.

A. Reporting Entity

The City as a reporting entity consists of only one governmental unit. Cincinnati has no component units - defined as entities for which the government is considered to be financially accountable.

The following organizations are included in the combined financial statements of the City because, under Ohio law, they have limited corporate powers and are therefore not legally separate organizations:

Cincinnati Park Board
Cincinnati Recreation Commission
City Planning Commission
Cincinnati Board of Health
Civil Service Commission

Cincinnati owns a railway line, the Cincinnati Southern Railway that was completed in 1881 and extends from Cincinnati, Ohio to Chattanooga, Tennessee, a distance of 335 miles. Improvements have been made at various intervals; the most recent, a major line revision to eliminate tunnel clearance restrictions, grades, and curves, was completed in 1964. Improvements other than buildings in Governmental Activities include \$83,224,000 attributable to the City's cost to construct and improve this railway system. The railway is leased to the Cincinnati, New Orleans and Texas Pacific Railway Company until December 31, 2026, with an option to extend the lease for an additional 25 years. The lessee is part of the Norfolk Southern Railway System and is its second largest operating unit. Total rental income from the railway lease was \$16,407,000 in 2003 and \$16,211,000 in 2002.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a

specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Interfund receivables and payables between governmental and business type activities have been eliminated in the government-wide statement of net assets. These eliminations minimize the duplicating effect on assets and liabilities within the governmental and business type activities total column. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the city's business type activities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund financial statements consist of a series of statements focusing on information about the City's major governmental and proprietary funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and a major individual enterprise fund are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the City of Cincinnati for 2003 are prepared in accordance with standards promulgated by the Governmental Accounting Standards Board (GASB). These standards include the effective pronouncements of the National Council on Governmental Accounting and the American Institute of Certified Public Accountants which are considered to be "generally accepted accounting principles" for state and local entities, until they are altered, amended, supplemented, revoked or superseded by a subsequent GASB pronouncement.

The City reports the following major governmental funds:

General Fund is the accounting entity in which all governmental activity, except that which is required to be accounted for in other funds, is accounted for. Its revenues consist primarily of taxes, intergovernmental shared revenues, charges for services, and investment income.

General Fund expenditures represent costs of general government, community development, public safety, public services, public health, parks and recreation, and other.

Capital Projects Fund is used primarily to account for resources designated to construct or acquire governmental fund capital assets. Such resources are derived principally from proceeds of general obligation debt, federal and state grants and City income tax (see Note 11). It is the City's policy to use the proceeds derived from the sale of bonds only for the capital improvement purpose detailed in the bond-authorizing ordinance and in accordance with state statutes. Any premium and accrued interest received from the sale of bonds is deposited into the Debt Service Fund.

Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on general obligation debt and capital lease payments of the governmental funds.

The City reports the following major proprietary fund:

Water Works Enterprise Fund accounts for all activities of the City's Water Works Department. The

City collects, purifies, and sells water to Greater Cincinnati Area residents. Revenues consist primarily of user charges.

The City reports the following fund types:

Internal Service Funds account for reproduction and printing; automotive repairs and maintenance services; stores; land sales and leasing; employee medical costs; workers' compensation; and data processing services to other departments or agencies of the City, or to other governments. Internal service funds are used to account for the financing of goods or services provided by one department or agency to another department or agencies of the government, generally on a cost reimbursement basis.

Pension Trust Fund – This fund is used to account for the receipts and expenditures of the City's Retirement System.

Investment Trust Fund – This fund is used to account for the Metropolitan Sewer District Fund portion of the City's pool of cash and investments.

Agency Funds – These funds are used to account for assets held by the City in a fiduciary capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Measurement Focus

Except for budgetary purposes, the basis of accounting used by the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide and proprietary funds financial statements are reported using the economic resources measurement focus. The government-wide and proprietary funds financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include income taxes, property taxes, grants, shared revenues, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the taxpayer's liability occurs and revenue from property taxes is recognized in the fiscal year for which the taxes are levied. On an accrual basis, revenue in the form of shared revenue is recognized when the provider government recognizes its liability to the City. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Inventories of materials and supplies may be considered expenditures either when purchased or when used, and prepaid expense items may be considered expenditures either when paid for or when consumed. Proceeds of general long-term debt are reported as other financing sources.

Income taxes, delinquent property taxes, liquor permits, fines, local government fund, gasoline tax, and motor vehicle license fees for the current and prior periods are determined to be susceptible to accrual and are recognized as revenue in the current accounting period. All other major revenues of governmental funds

are determined not to meet the criteria of either being measurable or available. The proprietary fund type statements are prepared utilizing the flow of economic resources measurement focus and the accrual basis of accounting for revenues, which are recognized when they are earned, and for expenses, which are recognized when they are incurred. Unbilled service receivables are recognized by proprietary funds when the services are provided.

The fiduciary fund types recognize revenue and expenditures/expenses on a basis consistent with the fund's accounting measurement objective. The pension trust fund and the mixed investment pool statements are prepared utilizing the flow of economic resources measurement focus and the accrual basis of accounting. Agency funds do not have a measurement focus. Their financial statements are prepared utilizing the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Other Accounting Policies

- A. *Investments* - The investments of the City (excluding the City of Cincinnati's Retirement System, (see Note 2)) are comprised primarily of time deposits and other securities guaranteed by the United States Government or its agencies and are stated at fair value based on quoted market prices.
- B. *Inventories* - Inventories are valued at cost using either the moving weighted average or the first-in, first-out method. Inventories in the governmental funds and the proprietary funds are recorded using the consumption method whereby inventories are recorded as expenditures or expenses when they are used.
- C. *Insurance* - The City maintains a comprehensive all risk property insurance program that provides insurance coverage for approximately \$831,000,000 in property values. In addition certain enterprise funds carry insurance coverage for specific purposes as determined by management. An estimated liability for uninsured losses is reported as required by Governmental Accounting Standards Board Statement 10 - Accounting and Financial Reporting for Risk Financing and Related Insurance Issues. State law authorizes the issuance of judgment bonds to settle claims. The City's available legal debt margin of \$93,000,000 at December 31, 2003, is considered adequate for catastrophic loss coverage.
- D. *Inter-Fund Transactions* - During the course of normal operations, the City has numerous transactions between funds including expenditures/expenses, advances and transfers of resources to provide services, construct assets and service debt. The governmental and proprietary fund type financial statements generally reflect such transactions as transfers or advances. The internal service funds record charges for services to City departments as operating revenue. All City funds record these payments to the internal service funds as operating expenditures/expenses. The proprietary funds record operating subsidies as other income whereas the fund paying the subsidy records it as either an expenditure/expense or transfer. Transfers are intended to reallocate money permanently from one fund to another. Advances represent the long-term portion of loans between funds. Inter-fund services provided and used are accounted for as revenues, expenditures, or expenses in the funds involved. The General Fund provides administrative services to enterprise funds. Based on an internal cost allocation plan certain costs initially borne by the General Fund are then billed as indirect charges to other funds of the City. The amounts charged for those services are treated as revenue to the General Fund and as operating expenses in the enterprise funds and as program expenses for individual functions and activities.

- E. *Capital Assets*** -Capital assets which include property, plant and equipment, and infrastructure (e. g. roads, streets, bridges and retaining walls) are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. The City defines capital assets as assets with an individual cost of \$5,000 or more (\$100,000 for governmental infrastructure assets) and an estimated useful life in excess of one year. Such assets are capitalized at historical cost, or estimated values that approximate historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the time of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

Water Mains	100 years
Buildings and Improvements	25-70 years
Infrastructure	15-25 years
Machinery and Equipment	5-40 years
Automotive Equipment	3-20 years

- F. *Deferred Revenues*** - The City reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Certain intergovernmental receivables, uncollected assessments and miscellaneous receivables not meeting the availability criteria have been deferred and will be realized in a subsequent period in the governmental funds.
- G. *Grants and Other Intergovernmental Revenues*** - The proprietary fund types recognize the federal reimbursement-type capital grants as intergovernmental receivables and capital contributions as the related expenses are incurred. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred. On an accrual basis, revenue in the form of shared revenue is recognized when the provider government recognizes its liability to the City.
- H. *Operating Revenues and Expenses*** - The City, in its proprietary funds, distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.
- I. *Capitalization of Interest*** - Interest is capitalized by the City in proprietary fund types when it is determined to be material. The City capitalizes interest in accordance with Statement of Financial Accounting Standard No. 62, Capitalization of Interest Costs in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants. This statement requires that the interest cost capitalized during construction be reduced by interest income earned on investments of the bond

proceeds from the date of the borrowing until the assets constructed from the bond proceeds are ready for their intended use.

- J. *Statement of Cash Flows* - For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments held by trustees, with a maturity of three months or less when purchased, to be cash equivalents. In addition, all cash and temporary investments with the City Treasurer are also considered to be cash equivalents since they are available to the proprietary funds on demand. The temporary investments, primarily consist of certificates of deposit and U. S. Treasury securities that have maturities of up to two years.
- K. *Pronouncements Effective for the 2003 Financial Statements* - With this financial report the City has changed its financial reporting to comply with Governmental Accounting Standards Board (GASB) Statement No. 41, *Budgetary Comparison – Perspective Differences* which was issued in May 2003 and amends Statement 34 to clarify the budgetary presentation requirements for governments with significant budgetary perspective differences that result in their not being able to present budgetary comparison information for their general fund and major special revenue funds. For governments that have implemented Statement 34 prior to the issuance of this Statement, the requirements of this Statement are effective for financial statements for periods beginning after June 15, 2002.
- L. *Pronouncements Issued But Not Yet Effective* – Governmental Accounting Standards Board (GASB) Statement Number 39, *Determining Whether Certain Organizations are Component Units*. This Statement was issued in May 2002 and amends Statement Number 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. This Statement is effective for financial statements for periods beginning after June 15, 2003.

Governmental Accounting Standards Board (GASB) Statement Number 40, *Deposit and Investment Risk Disclosures* was issued in March 2003 and amends Statement 3. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. This Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. This Statement is effective for financial statements for periods beginning after June 15, 2004.

Governmental Accounting Standards Board (GASB) Statement Number 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* was issued in November 2003 and establishes accounting and financial reporting standards for impairment of capital assets. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2004.

Governmental Accounting Standards Board (GASB) Statement Number 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* was issued in April 2004 and establishes uniform standards of financial reporting by state and local governmental entities for other postemployment benefit plans. This Statement is effective for periods beginning after December 15, 2004.

Governmental Accounting Standards Board (GASB) Statement Number 44, *Economic Condition Reporting: The Statistical Section* was issued in June 2004 and enhances and updates the Statistical Section that accompanies a state or local government's basic financial statements. This Statement is effective for periods beginning after June 15, 2005.

- M. *Working Capital Reserve*** - City Council established standards for a minimum working capital reserve account in 1984 to assure a strong financial position and to protect Cincinnati's general obligation bond rating during periods of fiscal stress. The policy called for achievement of a minimum reserve level, for emergency needs of a catastrophic nature, of no less than 5% or more than 8% of general operating revenues by December 31, 1986. The targeted year-end reserve level was achieved in January of each year 1985 through 2003. The working capital reserve for 2003 was \$21,130,000 and is included in the Fund Balance Reserved for Working Capital in the Capital Projects Fund. The City is a chartered government and the working capital reserve, as established, is allowed by the charter.
- N.** Restricted resources such as bond funds are assumed to be expended before non-restricted resources in paying for capital projects of both the governmental funds and the proprietary funds.

2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The City of Cincinnati combines the cash balances in individual funds to form a pool of cash and investments. Each fund reports its respective equity in City Treasury cash as an element of its resources. In addition, several funds separately hold cash and equivalents and investments, which are appropriately identified, in the combined balance sheet of the City. Earnings from the pooled cash and investments are allocated on a quarterly basis to each participating fund based on month-end equity balances. The data presented in the accompanying financial statements is for the City of Cincinnati as a whole.

Deposits

At year-end the carrying amount of the City's deposits, including certificates of deposit with various financial institutions was \$171,558,000 and the bank balance was \$181,699,000. The entire bank balance is held in the name of the City and is collateralized either by federal depository insurance or securities pledged as collateral and segregated by the Federal Reserve Bank in a pledge account. The collateral is held by the City's agent in the City's name; it cannot be released by the Federal Reserve Bank without the City's approval.

Statutes specify that the City Treasurer require institutions designated as a public depository to pledge and to deposit with the Treasurer's office, as security for the payment of all public moneys to be deposited in the public depository during the period of designation, eligible securities of an aggregate market value equal to the excess of the amount of public monies that are at the time so deposited over and above such portion or amount of such money as is at such time insured by the Federal Deposit Insurance Corporation, or by any other agency or instrumentality of the federal government. As an alternative, the City Treasurer may require such institution to deposit with him surety company bonds which, when executed, shall be for an amount equal to such excess amount.

Excluded from these amounts are deposits held by the City's Retirement System for which the year-end book balance was \$119,111,000. The year-end bank balance was \$13,652,000 and the cash equivalent balance was \$107,451,000. Cash of \$3,471,000 and cash equivalents of \$107,451,000 that were held in money managers custodial accounts at the Bank of New York at year-end are not subject to the same insurance and collateralization requirements as the City's deposits and are uncollateralized.

Investments

The fair value of investments for the City at December 31, 2003 was \$683,707,000. These investments include \$682,748,000 in U. S. Treasury Securities and \$959,000 in Equity Securities. The City is legally authorized to invest in obligations of the U.S. Treasury, federal agencies or instrumentalities, obligations of the State of Ohio and its political subdivisions and repurchase agreements. All investments of the City of Cincinnati are insured or registered, or are securities held by the City or its agent in the City's name. The City Treasurer may enter into a repurchase agreement of United States Treasury obligations or other

obligations for which the full faith and credit of the United States is pledged for the payment of principal and interest, or obligations or securities issued by any federal government agency. The City has not used reverse repurchase agreements or derivatives as investment instruments.

Excluded from the City's investments discussed above are assets held in trust by the City's Retirement System and Park Board. The fair value of investments for these funds at December 31, 2003 was \$2,125,763,000. These investments include \$368,312,000 in U. S. Treasury Securities, \$190,844,000 in Corporate Bonds and Notes, \$14,529,000 in Venture Capital and \$1,499,874,000 in Equity Securities, \$19,036,000 in Commercial Paper, \$3,741,000 in State and Local Obligations, \$29,360,000 in other bonds, and \$67,000 in other investments. In those cases where resources are maintained in trust, authority for investment of the property rests with either the trust agreement or local ordinance. Investments of the City of Cincinnati Retirement System are, by ordinance, subject to certain terms and limitations. The limitations do not apply to investments in securities of the City and federal government or their agencies. Investments of the City of Cincinnati Retirement System and Park Board are uninsured, with securities held by the counterparty, or by its trust department or agent but not in the City's name. The investment in Venture Capital is not considered an investment in a security for purposes of credit risk classification since it is not evidenced by securities that exist in physical or book entry form.

Securities Lending

City statutes and board of trustee policies permit the City of Cincinnati Retirement System to use investments of the plan to enter into securities lending transactions – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same security in the future. Securities are loaned in exchange for collateral that may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned in exchange for collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned in exchange for collateral valued at 105% of the market value of the securities plus any accrued interest. Collateral cannot be pledged or sold unless the borrower defaults. The borrower is required to pay to the Lender the equivalent of all interest and dividends that are paid by the issuer during the term of the loan. All securities loans can be terminated on demand by either the lender or the borrower, although the average term of the System's overall loans was 4 days in December 2003. Cash collateral is invested in a short-term investment pool, which had an average weighted maturity of 23 days as of December 31, 2003. Cash collateral may also be invested separately in "term loans", in which the maturity of the term loan is matched to either the maturity of the cash collateral invested or the interest rate reset of the cash collateral invested. These loans have rights of substitution and securities can be recalled on demand. As of December 31, 2003, there were no violations of legal or contractual provisions, no borrower or lending agent default and no losses known to the securities lending agent. There are no dividends or coupon payments owing on the securities lent.

The following represents the balances relating to the securities lending transactions at the financial statement date:

	(Amounts in Thousands)		
	Fair Value of Underlying Securities	Cash Collateral Received/ Securities Collateral Value	Cash Collateral Investments Value
<u>Securities Lent</u>			
Lent for cash collateral			
Stocks	\$282,908	\$291,873	\$291,873
U.S. Agencies	33,343	34,036	34,036
Corporate Bonds	36,975	37,955	37,955
U.S. Government Fixed Income	214,285	218,621	218,621
	<u>\$567,511</u>	<u>\$582,485</u>	<u>\$582,485</u>

Derivatives

Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. The retirement system enters into certain derivative financial instruments primarily to enhance the performance and reduce the volatility of the portfolio. It purchases S&P 500 futures contracts to gain exposure to the U.S. equity market, fixed income futures contracts and options to manage interest rate risk, and foreign exchange contracts are used occasionally to hedge foreign currency exposure. The retirement system's fixed income managers are authorized to invest in mortgage-backed securities (MBS), commercial mortgage-backed securities (CMB), collateralized mortgage obligations (CMO) and asset-backed securities (ABS). MBS securities are issued by government agencies and instrumentalities such as the FHA, FNMA, GNMA, FHLMC, while CMB and CMO securities are issued by non-government corporations. ABS securities are supported by loans which are secured by first residential mortgages, home equity mortgages, auto loans, credit card receivables, etc.

At December 31, 2003 the retirement system held the following derivative positions:

- 1.) Futures contracts settling March 19, 2004 to buy S&P 500 index securities with a notional value of approximately \$37.0 million.
- 2.) Futures contracts settling March 31, 2004 to sell U.S. Treasury securities with a notional value of \$39.0 million.
- 3.) Government issued mortgage-backed securities with a market value of \$63.7 million.
- 4.) Commercial mortgage-backed securities with a market value of \$23.6 million.
- 5.) Collateralized mortgage obligations with a market value of \$53.1 million.
- 6.) Asset-backed securities with a market value of \$6.4 million.

The retirement system held one short position on a put option expiring February 21, 2004 on a 10-year U.S. Treasury future as well as one short position on a put option expiring February 5, 2004 on a 30-year FHLMC MBS pass through security. These holdings had a market value of (\$39,535) as of December 31, 2003.

The retirement system held no foreign exchange contracts as of December 31, 2003.

3. MIXED INVESTMENT POOL

On April 10, 1968, the Board of County Commissioners of Hamilton County and the City of Cincinnati consolidated all County and City sanitary sewer facilities, under the direction and control of the Board of County Commissioners and the management and operation of the City. The cash balance in the fund established for this purpose, the Metropolitan Sewer District fund (MSD), is combined with the City's pool of cash and investments. For the purposes of financial reporting, the MSD portion of the City's pool of cash and investments is reported as an Investment Trust Fund. Assets in the pool are reported at fair value based on quoted market prices. The pool is not subject to regulatory oversight. Fair value amounts are determined at year end. The City has not provided or obtained any legally binding guarantees to support the value of the Mixed Investment Pool. MSD is required by Chapter 301 of the Cincinnati Municipal Code to participate in the Mixed Investment Pool. Disclosures required by GASB Statement 3 are discussed in Note 2.

Summary by major investment classification:

(Amounts in Thousands)

	<u>Cost</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>
Money Market Fund	\$ 25,000	\$ 25,000	1.02%	-
Certificates of Deposit	125,542	125,542	1.1% - 5.18%	01/09/04 - 03/19/07
U.S. Treasury Notes	137,170	137,540	1.125% - 6.0%	01/31/04 - 06/30/05
FHLB/FNMA Securities	185,068	185,662	1.56% - 5.625%	01/06/04 - 12/29/06
City of Cincinnati Notes	21,632	21,632	.88% - 6.75%	04/30/04 - 12/01/05
Cash	<u>3,556</u>	<u>3,556</u>		
Total	<u>\$497,968</u>	<u>\$498,932</u>		

The Mixed Investment Pool does not issue a separate report. The Mixed Investment Pool's financial statements can be found below:

**Mixed Investment Pool
Statement of Net Assets
as of December 31, 2003**

(Amounts in Thousands)

<u>Assets</u>	
Equity in City Treasury	<u>\$ 498,932</u>
<u>Net Assets</u>	
Held in Trust for Internal Pool Participants	\$ 465,727
Held in Trust for External Pool Participant	<u>33,205</u>
Total Net Assets	<u>\$ 498,932</u>

**Mixed Investment Pool
Statement of Changes in Net Assets
For the Year Ended December 31, 2003**

(Amounts in Thousands)

	<u>Internal Participants</u>	<u>External Participants</u>	<u>Total</u>
Additions:			
Contributions:			
Participant Deposits	\$1,190,636	\$192,670	\$1,383,306
Investment earnings:			
Interest and dividends	19,482	1,234	20,716
Net depreciation in the fair value of investments	<u>(5,732)</u>	<u>(355)</u>	<u>(6,087)</u>
Total investment earnings	<u>13,750</u>	<u>879</u>	<u>14,629</u>
Total additions	1,204,386	193,549	1,397,935
Deductions:			
Distributions to Participants	<u>1,248,640</u>	<u>189,577</u>	<u>1,438,217</u>
Change in Net Assets	(44,254)	3,972	(40,282)
Net assets – beginning	<u>509,981</u>	<u>29,233</u>	<u>539,214</u>
Net assets – ending	<u>\$ 465,727</u>	<u>\$ 33,205</u>	<u>\$ 498,932</u>

4. COMMITMENTS

Convergys - In July 2003 the City and Convergys Corporation entered into an Agreement for the Creation and Retention of Jobs. The City granted Convergys tax credits against the City's income tax for a period of fifteen years and a potential of \$29,750,000 in grants if specific conditions are met over a three year period. In December 2003 the City sold Economic Development Revenue Bonds in the amount of \$20,500,000 to partially fund these grants.

Based on eligibility requirements that were met in 2003 a \$10,000,000 grant was made to Convergys. If Convergys continues to meet its eligibility requirements they can receive up to \$10,000,000 in 2004 and \$3,000,000 in each of the years 2005, 2006, and 2007. An additional \$1,000,000 can be earned at any time if certain employment performance conditions are met.

The Vine and Central Parkway Garage and Housing Development

In September 2003 the City entered into an agreement with the Kroger Company to build a parking garage primarily for the benefit of Kroger. In return Kroger has agreed to keep its corporate headquarters and nearly 1,200 jobs in downtown Cincinnati. This development includes the construction of a 950 space parking garage, the creation of 25 market rate housing units and retail space. Kroger will rent a minimum of 850 spaces in the garage. The City will issue \$12,000,000 in revenue bonds to finance the garage.

The City will provide \$2,500,000 in funding to support the construction of the housing and retail space in the development. Approximately \$3,900,000 in private financing from the Cincinnati Development Fund and the Cincinnati Equity Fund has been secured for this project.

5. INTERFUND ASSETS/LIABILITIES

The composition of interfund balances as of December 31, 2003, is as follows (Amounts in Thousands):

DUE FROM/TO OTHER FUNDS

	Due From						
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Internal Service Funds	Water Works Enterprise Fund	Nonmajor Enterprise Funds	Fiduciary Funds
Due To							
General Fund	\$	\$ 3	\$ 23	\$ 2,051	\$ 191	\$ 69	\$ 195
Capital Project Fund	29		56	235	722		
Nonmajor Governmental	71		186	200			55
Internal Service Funds	6	1,386	12	28		2	28
Water Works Enterprise Fund	9	61	5	240		3	57
Nonmajor Enterprise Funds	6	222	21	30	6		16
Fiduciary Funds	218	435		655	53	59	58
Total	\$ 339	\$ 2,107	\$ 303	\$ 3,439	\$ 972	\$ 133	\$ 409
							\$ 7,702

ADVANCES TO/FROM OTHER FUNDS (Amounts in Thousands)

	Advances From					Total
	General Fund	Nonmajor Governmental	Internal Service Funds	Water Works Enterprise Fund	Nonmajor Enterprise Funds	
Advances To						
General Fund	\$	\$ 521	\$	\$	\$	\$ 521
Capital Project Fund			13,414		13,555	26,969
Nonmajor Governmental	125	2,707				2,832
Internal Service Funds	177			295	1	473
Total	\$ 302	\$ 3,228	\$13,414	\$295	\$13,556	\$ 30,795

6. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2003, consisted of the following (Amounts in Thousands):

	Transfers Out						Total
	General Fund	Capital Projects Fund	Debt Service Funds	Nonmajor Governmental	Internal Service Funds	Nonmajor Enterprise Funds	
Transfer In							
General Fund	\$	\$ 4,900	\$	\$	\$1,181	\$	\$ 6,081
Capital Projects Fund	92		23,378	3,080	982		27,532
Debt Service Fund	2,943	37,569		941	25		41,478
Nonmajor Governmental Funds	64	16,037		176	61	908	17,246
Internal Service Funds		8,815		1,384			10,199
Nonmajor Enterprise Funds		1,203			7		1,210
Total	\$ 3,099	\$68,524	\$23,378	\$5,581	\$2,256	\$ 908	\$103,746

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

7. SEGMENT INFORMATION

The City has issued bonds to finance parking facilities, municipal golf, and stormwater management facilities and improvements. The revenues of these activities are relied on for repayment of these bonds but property tax support is available, if necessary. Summary financial information for these funds is presented below.

(Amounts in Thousands)

CONDENSED STATEMENT OF NET ASSETS

	<u>Parking Facilities</u>	<u>Municipal Golf</u>	<u>Stormwater Management</u>
Assets:			
Current Assets	\$ 2,435	\$ 422	\$ 3,910
Due from Other Funds	3		124
Advances to Other Funds	4,003	105	7,000
Restricted Assets	8		
Capital Assets	34,859	8,860	36,942
Other Noncurrent Assets	<u>2,461</u>	<u>448</u>	<u>2,707</u>
Total Assets	<u>43,769</u>	<u>9,835</u>	<u>50,683</u>
Liabilities :			
Current Liabilities	1,426	656	1,350
Due to Other Fund	21	1	15
Noncurrent Liabilities	<u>10,011</u>	<u>576</u>	<u>2,445</u>
Total Liabilities	<u>11,458</u>	<u>1,233</u>	<u>3,810</u>
Net Assets :			
Invested in Capital Assets, Net of Related Debt	24,709	7,805	33,642
Restricted	8		
Unrestricted	<u>7,594</u>	<u>797</u>	<u>13,231</u>
Total Net Assets	<u>\$ 32,311</u>	<u>\$ 8,602</u>	<u>\$ 46,873</u>

(Amounts in Thousands)

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	<u>Parking Facilities</u>	<u>Municipal Golf</u>	<u>Stormwater Management</u>
Operating Revenues	\$ 8,638	\$ 5,816	\$ 7,351
Depreciation Expense	(1,388)	(623)	(1,441)
Other Operating Expenses	<u>(5,617)</u>	<u>(5,585)</u>	<u>(4,136)</u>
Operating Income	<u>1,633</u>	<u>(392)</u>	<u>1,774</u>
Nonoperating Revenues (Expenses):			
Interest Revenue	181	15	109
Interest Expense	<u>(411)</u>	<u>(74)</u>	<u>(252)</u>
Total Non-Operating Revenue (Expenses)	<u>(230)</u>	<u>(59)</u>	<u>(143)</u>
Income before Contributions and Transfers	1,403	(451)	1,631
Transfer In	4		3
Transfers (Out)	(908)		
Contributions	<u>6</u>		<u>9</u>
Change in Net Assets	505	(451)	1,643
Beginning Net Assets	<u>31,806</u>	<u>9,053</u>	<u>45,230</u>
Ending Net Assets	<u>\$ 32,311</u>	<u>\$ 8,602</u>	<u>\$ 46,873</u>

(Amounts in Thousands)

CONDENSED STATEMENT OF CASH FLOWS

	<u>Parking Facilities</u>	<u>Municipal Golf</u>	<u>Stormwater Management</u>
Net Cash Provided (Used) by:			
Operating Activities	\$ 3,017	\$ 737	\$ 3,272
Noncapital Financing Activities	333	273	768
Capital and Related Financing Activities	(2,933)	(1,163)	(4,450)
Investing Activities	<u>174</u>	<u>24</u>	<u>159</u>
Net Increase (Decrease)	591	(129)	(251)
Beginning Cash and Cash Equivalent	<u>4,054</u>	<u>991</u>	<u>5,275</u>
Ending Cash and Cash Equivalent	<u>\$ 4,645</u>	<u>\$ 862</u>	<u>\$ 5,024</u>

8. LEASES

CITY AS LESSEE

Operating Leases

The City has entered into various leases for property, equipment and office space. These leases are considered for accounting purposes to be operating leases. The total cost for such leases were \$ 885,000 for the year ended December 31, 2003. Future minimum lease payments are as follows:

(Amounts in Thousands)

<u>Year</u>	<u>Amount</u>
2004	\$ 1,273
2005	1,052
2006	862
2007	770
2008	708
2009-2012	<u>583</u>
Total Future Minimum Lease Payments	<u>\$ 5,248</u>

Capital Leases

The City has capitalized leases for the following property and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

(Amounts in Thousands)

	<u>Governmental Activities</u>
Leased Property/Equipment	\$ 2,217
Less: Accumulated Depreciation	<u>2,078</u>
Total	<u>\$ 139</u>

The following is a schedule of future minimum capital leases and the present value of the net minimum lease payments at December 31, 2003:

(Amounts in Thousands)

<u>Year</u>	<u>Governmental Activities</u>
2004	\$ 35
2005	32
2006	32
2007	19
2008	<u>14</u>
Total minimum lease payments	132
Less: Amounts representing interest	<u>21</u>
Present value of net minimum lease payments	<u>\$ 111</u>

CITY AS LESSOR

The City has entered into various contractual agreements for the rental of properties to various commercial enterprises, which are reported as operating leases for accounting purposes.

Amounts relating to the operating leases as of December 31, 2003 are included in the financial statements of the following:

(Amounts in Thousands)

	Business-type <u>Activities</u>	Governmental <u>Activities</u>
Land	\$ 537	\$ 2,056
Buildings	5,208	3,181
Improvements	483	83,267
Accumulated Depreciation	3,660	78,876
Depreciation Expense	188	708

Future minimum rentals on non-cancelable operating leases as of December 31, 2003 are as follows:

(Amounts in Thousands)

<u>Year</u>	Business-type <u>Activities</u>	Governmental <u>Activities</u>
2004	\$ 963	\$ 16,838
2005	722	16,823
2006	570	16,778
2007	453	16,593
2008	413	16,407
Remaining years	<u>387</u>	<u>278,920</u>
Total Future Minimum Rental Payments	<u>\$3,508</u>	<u>\$362,359</u>
Total Rentals for 2003:	\$1,065	\$ 16,407

Future minimum rentals of the railway line, recorded in Debt Service Fund, are assumed to equal the payments calculated for the current year. These minimum rentals are included in the Governmental Activities column.

Enterprise Funds

The General Aviation rentals (included in business-type activities) do not include contingent rentals which may be received on the basis of hours or usage in excess of stipulated minimums. Terms of the leases are normally on a five year basis with renewal options not to exceed fourteen years.

Governmental Capital Assets

The City-owned railway line, the Cincinnati Southern Railway, is leased to the Cincinnati, New Orleans, and Texas Pacific Railway Company until December 31, 2026, with a renewal option of twenty-five years. Pursuant to the Ohio Revised Code, the use of the rental income from the railway line is restricted to debt service.

During 1995, the City entered into a lease involving land with American Commercial Marine. The lease is for ten years, beginning January 1, 1996 and ending December 31, 2005.

9. LONG-TERM DEBT

General Obligation Bonds and Notes

The City issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds and notes issued in prior years was \$568,157,000.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds and notes currently outstanding are as follows:

(Amounts in Thousands)

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	0.88% - 7.875%	\$309,062
Business-type activities	3.5% - 6.75%	<u>67,845</u>
		<u>\$376,907</u>

The annual debt service requirements to maturity for the general obligation bonds and notes are as follows:

(Amounts in Thousands)

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 39,333	\$ 14,719	\$22,688	\$ 2,888
2005	26,652	13,090	11,590	2,050
2006	23,792	11,942	9,697	1,485
2007	22,580	10,917	7,470	1,030
2008	19,990	9,912	4,600	693
2009-2013	81,445	37,082	10,000	1,638
2014-2018	58,175	18,771	1,800	76
2019-2023	14,300	8,646		
2024-2028	8,130	5,917		
2029-2033	10,880	3,170		
2034-2035	<u>3,785</u>	<u>299</u>		
Total	<u>\$309,062</u>	<u>\$134,465</u>	<u>\$67,845</u>	<u>\$ 9,860</u>

Revenue Bonds

The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. The net revenues of the Water Works are pledged to pay Water Works revenue bonds debt service. The original amount of revenue bonds authorized in prior years was \$122,471,000 of which \$122,421,000 was issued. During 2003, \$112,360,000 of revenue bonds were issued to finance Water Works projects and \$20,505,000 of revenue bonds were issued to finance Economic Development projects.

Revenue bonds outstanding at year-end are as follows:

(Amounts in Thousands)

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Economic Development	Various	\$ 37,530
Urban Renewal	Various	610
Water Works	Various	<u>199,310</u>
		<u>\$237,450</u>

The annual debt service requirements to maturity for the revenue bonds are as follows:

(Amounts in Thousands)

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 2,288	\$2,055	\$ 7,010	\$ 9,367
2005	2,403	2,050	7,240	9,141
2006	2,480	1,935	7,470	8,909
2007	2,567	1,813	7,720	8,656
2008	2,670	1,682	7,955	8,427
2009-2013	10,532	6,321	45,205	36,704
2014-2018	7,975	3,367	57,945	23,952
2019-2023	<u>7,225</u>	<u>1,330</u>	<u>58,765</u>	<u>8,022</u>
Total	<u>\$38,140</u>	<u>\$20,553</u>	<u>\$199,310</u>	<u>\$113,178</u>

Bonds and Notes Outstanding at December 31, 2003

(AMOUNTS IN THOUSANDS)

Description	Interest Rates	Issue Dates	Maturity Dates	Original Authorized	Amount Due 2004	Amount Outstanding 12/31/2003
Bonds:						
General Property Tax	3.25%	1957	2007	\$ 1,000	\$ 20	\$ 80
Supported	4.1% to 4.75%	1994-1999	2004-2009	87,700	8,510	33,100
	5.15% to 6.0%	1984-1995	2004-2005	12,200	1,065	2,065
	7.875%	1987	2017	30,000	1,000	14,000
Various Rate Issues	2.0% to 6.2%	1991-2003	2004-2016	175,805	11,190	152,460
Urban Redevelopment						
Various Rate Issues	4.8% to 6.3%	1995	2015	3,250	140	2,420
Municipal Income Tax	4.6% to 5.2%	1994-2000	2004-2020	11,560	880	5,320
Recreational Facilities	5.15% to 6.75%	1977-1995	2004-2011	5,900	433	1,755
Various Rate Issues	4% to 5%	2001	2021	9,000	450	8,100
Urban Renewal	4.2%	1999	2004	6,000	1,200	1,200
	6.75%	1990	2005	1,500	100	200
Various Rate Issues	3.25% to 6.5%	1991-2002	2007-2012	21,480	2,320	15,590
Urban Development Taxable						
Various Rate Issues	2.0% to 6.25%	1998-2003	2019-2021	21,905	495	20,540
Police & Fire Pension	4.7% to 6.0%	2000	2004-2035	42,000	495	39,700
Total General Long-Term Bond Obligations				429,300	28,298	296,530
Recreational Facilities	4.6% to 5.375%	1977-1994	2004-2007	5,200	483	1,055
Off Street Parking	6.75%	1990	2004-2006	5,000	350	1,050
Water Works	4.1% to 4.75%	1994-1999	2004-2014	90,500	8,080	45,440
	5.15% to 6.75%	1989-1995	2004-2007	51,000	3,750	7,900
Stormwater	4.2 to 5.15%	1995-1999	2005-2007	8,800	925	3,300
Total Proprietary Fund Obligations				160,500	13,588	58,745
Total General Obligation Bonds Payable				589,800	41,886	355,275
Notes:						
Judgement	0.88%	2003	2004	4,635	4,635	4,635
Municipal Income Tax	5.5 to 6.75%	1999-2001	2004-2005	6,397	4,900	6,397
Convention Facilities	1.5%	2003	2004	15,410	15,410	15,410
Parking Improvement	3.5%	2002	2004	9,100	9,100	9,100
Economic Development	1.25%	2003	2004	1,655	1,500	1,500
Total General Obligation Notes Payable				37,197	35,545	37,042
Total General Obligation Bonds and Notes Payable				\$ 626,997	\$ 77,431	\$ 392,317
Revenue Bonds	1.57% to 8.48%	1990-2003	2004-2023	\$ 272,921	\$ 9,298	\$ 237,450
Total Outstanding Debt				\$ 899,918	\$ 86,729	\$ 629,767

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2003, was as follows:

(Amounts in Thousands)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds	\$273,473	\$ 52,705	\$29,648	\$296,530	\$28,298
General Obligation Notes	21,497	6,135	15,100	12,532	11,035
Revenue Bonds	<u>18,522</u>	<u>20,505</u>	<u>887</u>	<u>38,140</u>	<u>2,288</u>
Total Bonds and Notes Payable	313,492	79,345	45,635	347,202	41,621
Compensated Absences	67,522	35,488	32,310	70,700	40,066
Claims and Judgments	26,029	75,429	73,958	27,500	15,712
Capital Leases	171	77	137	111	26
Other	2,200	80		2,280	465
State Loan	<u>9,732</u>		<u>9,732</u>		
Governmental Activity Long-term liabilities	<u>\$419,146</u>	<u>\$190,419</u>	<u>\$161,772</u>	<u>\$447,793</u>	<u>\$97,890</u>
Business-type Activities:					
Bonds and Notes Payable:					
General Obligation Bonds	\$ 74,967	\$	\$16,222	\$ 58,745	\$13,587
General Obligation Notes	9,100			9,100	9,100
Revenue Bonds	<u>89,885</u>	<u>112,360</u>	<u>2,935</u>	<u>199,310</u>	<u>7,010</u>
Total Bonds and Notes Payable	173,952	112,360	19,157	267,155	29,697
Compensated Absences	6,668	3,470	3,626	6,512	3,124
Claims and Judgments	154	56	130	80	80
Other	1,210			1,210	
Capital Leases	<u>69</u>		<u>69</u>		
Business-type Activity Long-term liabilities	<u>\$182,053</u>	<u>\$115,886</u>	<u>\$22,982</u>	<u>\$274,957</u>	<u>\$32,901</u>

For the governmental activities, claims and judgments are generally liquidated by the general fund. Compensated absences for the governmental activities are generally liquidated by the employee's home fund, the fund from which the employee's regular wages are paid.

Internal Service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, \$2,119,000 of compensated absences, \$18,306,000 of unpaid claims, and \$38,000 of capital leases for the internal service funds are included in the above amounts.

State Infrastructure Bank Loan

On May 19, 1999 City Council authorized the City Manager to amend the repayment terms of an April 30, 1998 note agreement the City had made with the Ohio Department of Transportation, State Infrastructure Bank. The loan to the City had an original principal amount not to exceed \$20,020,000 and was issued for the purpose of paying a portion of the Fort Washington Way Improvement project costs. The terms of the original note agreement required that the loan be repaid 18 months from the date of the initial disbursement under the note. The initial disbursement was made on May 29, 1998, so the first payment was required on November 29, 1999. Under the terms of the new loan agreement, the City was obligated to pay accrued interest and a principal payment of \$5,000,000 on February 1, 2000. On February 1, 2001, the City made a second principal payment of \$5,000,000 from a federal grant received from Fort Washington Way. Principal and interest payments were made also on August 1, 2001 and February 1, 2002. In August of 2002 an additional \$587,000 was drawn down.

On January 24, 2001 City Council authorized the City Manager to borrow an additional \$5,020,000 from the Ohio Department of Transportation. The first disbursement on this loan was made August 13, 2002.

A payment of principal and interest was made on February 1, 2003. On April 9, 2003 City Council authorized the issuance of bonds totaling \$9,705,000 to payoff the balance on the loans. On June 12, 2003 the remaining principal and the accrued interest on the initial loan was paid off. On August 12, 2003 the principal on the second loan of \$5,020,000 was paid off prior to the start of interest accruing.

10. DEBT LIMITATION

The City's "indirect" (ten mill) debt limit was removed by decision of the Ohio courts. In September 1977, the Supreme Court of Ohio dismissed an appeal from the decision of the Court of Appeals, First Appellate District, Hamilton County, Ohio, involving the City's debt limitations. In summary, the City instituted a test case against the Director of Finance for the purpose of obtaining a definitive construction of certain sections of the City Charter bearing on the right of the City to levy taxes in excess of the ten mill limitation of Section 5705.02 of the Ohio Revised Code. As a result of the Court decision, the City has the right to levy property taxes without limitation to support its lawfully issued bonds and notes, and the City's ability to incur debt will be limited only by the arithmetical (percentage) limitations set forth under Section 133.03 of the Ohio Revised Code.

Section 133.03 provides that the principal amount of both voted and unvoted debt of the City may not exceed 10-1/2% of the City's assessed valuation, and the principal amount of the City's unvoted debt may not exceed 5-1/2% of the City's assessed valuation. The Code also provides several exemptions of debt from the 5-1/2% and 10-1/2% limitations.

11. TAXES

City Income Tax

This locally levied tax applies to gross salaries, wages and other personal service compensation earned by residents both in and out of the City and to earnings of nonresidents (except certain transients) earned in the City. It also applies to net income of business organizations for business conducted in the City. The tax is the largest single source of General Fund revenue.

The City's income tax of 2.1% is subdivided into four components. The first component is the latest increase of .1% enacted July 1, 1988, to be spent only for the maintenance of the City's infrastructure. The second component is the .3% which can be used only for public transit purposes, including both capital and current operating expense. The third component is .15%, which can be used only for permanent improvement

purposes. The remaining 1.55% is first used to meet annual deficiencies, to the extent required, in the General Fund. The amount of the 1.55% income tax revenue over the fixed allocation to the General Fund at the end of any year is recognized as revenue in the Income Tax Permanent Improvement Fund. The unused amount can be carried forward for subsequent year capital or operating needs.

Actual collections of \$190,142,306 for the 1.55% portion in 2003 were more than the original allocation of \$187,993,000 for the General Fund. Consequently, the excess collections of \$2,149,000 were transferred to the Permanent Improvement Fund. The following table identifies the excess 1.55% income tax collections for the years 1999 through 2003 and collections in excess of allocation:

(Amounts in Thousands)

<u>Year</u>	<u>Actual Collections of 1.55%</u>	<u>Allocation to General Fund</u>	<u>Collections in Excess of Allocation</u>
1999	\$182,695	\$180,500	\$ 2,195
2000	183,035	183,035	
2001	188,598	188,598	
2002	185,258	185,258	
2003	190,142	187,993	2,149

Property Taxes

The assessed valuation of property within the City subject to the levy of ad valorem taxes includes real property, public utilities property and tangible personal property. The assessed value upon which the 2003 levy was based was \$4,871,308,000, \$319,864,000 and \$535,538,000 for real property, public utility property and tangible personal property, respectively (per Hamilton County Auditor). The City's property taxes are collected by the Hamilton County Auditor and are remitted to the City on a periodic basis. Real property taxes collected in any calendar year are generally levied on assessed values as of January 1 of the preceding year according to the following calendar:

Property Tax Calendar - 2004

Lien date	January 1, 2003
Levy date	October 31, 2003
First installment payment due	January 31, 2004
Second installment payment due	June 20, 2004

Assessed values are established by the County Auditor, at no more than 35% of appraised market value. The laws of the State of Ohio presently require that all property be revalued no less than every six years, at any time the County Auditor finds that true or taxable value thereof has changed, and in the third calendar year following the year in which a sexennial reappraisal is completed if ordered by the State Commissioner of Tax Equalization. Real property was reappraised during 2002 with the results affecting collections beginning in 2003. The City recognizes the property taxes due to be paid in 2004 as deferred revenue since the first settlement date is more than sixty days after year-end and does not meet the availability criteria for accrual.

Public utilities property taxes in any calendar year are those levied on assessed values as of December 31 of the preceding year. Tangible personal property of public utilities is assessed at various percentages of true value. Tangible personal property used in business, other than public utilities, is assessed at 25% of true value.

12. SHORT-TERM DEBT – BOND ANTICIPATION NOTES

The City issues bond anticipation notes in advance of issuance of bonds, depositing the proceeds in its capital projects fund. These notes are necessary to provide adequate funds at the time needed to support contracts for the improvements prior to issuance of the related bonds.

(Amounts in Thousands)

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Bond Anticipation Notes	\$0	\$38,788	\$23,378	\$15,410

13. RESTRICTED ASSETS

The balance of the restricted asset accounts in the enterprise funds are as follows (amounts in thousands):

Revenue bond construction account – Water Works	\$ 51,278
Revenue bond reserve account – Water Works	18,246
Revenue bond construction account – Parking Facilities	8
Customer deposits – Water Works	849
Construction account - other – Water Works	<u>8,614</u>
Total restricted assets	<u>\$78,995</u>

14. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2003 was as follows:

(Amounts in Thousands)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 156,371	\$ 4,724	\$ (1,404)	\$ 159,691
Construction in Progress	108,888	41,373	(25,058)	125,203
Total capital assets, not being depreciated	<u>265,259</u>	<u>46,097</u>	<u>(26,462)</u>	<u>284,894</u>
Capital assets, being depreciated:				
Buildings	131,187	10,020	(62)	141,145
Improvements other than buildings	232,534	23,766	(161)	256,139
Machinery and Equipment	97,968	19,166	(7,474)	109,660
Property acquired under capital leases	2,141		(125)	2,016
Infrastructure	<u>390,317</u>	<u>47,099</u>	<u>(1,328)</u>	<u>436,088</u>
Total capital assets, being depreciated	<u>854,147</u>	<u>100,051</u>	<u>(9,150)</u>	<u>945,048</u>
Less accumulated depreciation for:				
Buildings	(76,851)	(4,661)	(75)	(81,587)
Improvements other than buildings	(128,981)	(6,504)	11	(135,474)
Machinery and Equipment	(55,642)	(8,221)	5,420	(58,443)
Property acquired under capital leases	(1,812)	(284)	125	(1,971)
Infrastructure	<u>(128,771)</u>	<u>(18,291)</u>		<u>(147,062)</u>
Total accumulated depreciation	<u>(392,057)</u>	<u>(37,961)</u>	<u>5,481</u>	<u>(424,537)</u>
Total capital assets, being depreciated, net	<u>462,090</u>	<u>62,090</u>	<u>(3,669)</u>	<u>520,511</u>
Governmental Activities capital assets, net	<u>\$ 727,349</u>	<u>\$108,187</u>	<u>\$(30,131)</u>	<u>\$805,405</u>

Capital asset activity for the year ended December 31, 2003 was as follows:

(Amounts in Thousands)				
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 25,349	\$	\$ (13)	\$ 25,336
Construction in Progress	136,632	87,640	(83,631)	140,641
Total capital assets, not being depreciated	<u>161,981</u>	<u>87,640</u>	<u>(83,644)</u>	<u>165,977</u>
Capital assets, being depreciated:				
Buildings	253,182	21,838	(435)	274,585
Improvements other than buildings	435,245	61,906	(438)	496,713
Machinery and Equipment	168,386	10,366	(973)	177,779
Property acquired under capital leases	637		(190)	447
Total capital assets, being depreciated	<u>857,450</u>	<u>94,110</u>	<u>(2,036)</u>	<u>949,524</u>
Less accumulated depreciation for:				
Buildings	(115,550)	(7,485)	329	(122,706)
Improvements other than buildings	(122,352)	(5,983)	201	(128,134)
Machinery and Equipment	(88,610)	(9,071)	739	(96,942)
Property acquired under capital leases	(365)	(93)	190	(268)
Total accumulated depreciation	<u>(326,877)</u>	<u>(22,632)</u>	<u>1,459</u>	<u>(348,050)</u>
Total capital assets, being depreciated, net	<u>530,573</u>	<u>71,478</u>	<u>(577)</u>	<u>601,474</u>
Business-type Activities capital assets, net	<u>\$ 692,554</u>	<u>\$ 159,118</u>	<u>\$ (84,221)</u>	<u>\$ 767,451</u>

Depreciation expense was charged to functions/programs of the City as follows:

(Amounts in Thousands)

Governmental activities:	
General Government	\$ 1,081
Community Development	4,386
Parks and Recreation	3,550
Public Safety	3,214
Transportation and Engineering	18,878
General Services	
Public Services	3,767
Public Health	301
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>2,784</u>
Total depreciation expense – governmental activities:	<u>\$ 37,961</u>

Business-type activities:

Water Works	\$ 15,657
Parking Facilities	1,388
Convention Center	2,880
General Aviation	643
Municipal Golf	623
Stormwater Management	<u>1,441</u>

Total depreciation expense – business-type activities: \$ 22,632

Governmental Activities Construction in Progress at December 31, 2003 is comprised of the following:

(Amounts in Thousands)

<u>Administering Department</u>	<u>Project Authori- zations</u>	<u>Expended to December 31, 2003</u>	<u>Committed</u>	<u>Required Future Financing</u>
Transportation & Engineering	\$ 74,953	\$ 10,118	\$ 64,835	\$ 18,655
Community Development	99,856	52,252	47,604	12,827
Recreation	38,025	17,973	20,052	8,490
Safety	7,788	2,377	5,411	1,391
Parks	22,993	15,899	7,094	1,002
Public Services	24,348	17,547	6,801	
Other	<u>16,226</u>	<u>9,037</u>	<u>7,189</u>	<u>3,723</u>
Totals	<u>\$284,189</u>	<u>\$125,203</u>	<u>\$158,986</u>	<u>\$ 46,088</u>

Required future financing represents State and Federal commitments in support of City projects.

Business Activities Construction in Progress at December 31, 2003 is comprised of the following:

(Amounts in Thousands)

<u>Enterprise Fund</u>	<u>Project Authori- zations</u>	<u>Expended to December 31, 2003</u>	<u>Committed</u>	<u>Required Future Financing</u>
Water Works	\$131,932	\$ 97,276	\$34,656	\$
Parking Facilities	25,275	13,572	11,703	7,700
Convention Center	26,544	20,530	6,014	4,278
General Aviation	4,836	3,764	1,072	581
Municipal Golf	978	509	469	
Stormwater Management	<u>11,990</u>	<u>4,990</u>	<u>7,000</u>	
Totals	<u>\$201,555</u>	<u>\$140,641</u>	<u>\$60,914</u>	<u>\$12,559</u>

15. RECEIVABLES

Accounts Receivable are presented in the general purpose financial statements net of the allowance for uncollectible accounts. The uncollectible accounts related to the General Fund at December 31, 2003, are as follows: Taxes Receivable (\$2,435,000) and other accounts receivable (\$3,490,000). The uncollectible accounts related to the Debt Service Fund at December 31, 2003 are Taxes Receivable (\$2,507,000). The balance for the allowance for doubtful accounts in the Capital Projects Fund at December 31, 2003 is (\$1,728,000). The balance of the allowance accounts for Appropriated Special Revenue is (\$145,000) and Non-Appropriated Special Revenue is (\$2,595,000) as of December 31, 2003. The balances of the allowance accounts of the proprietary funds as of December 31, 2003 are as follows: Water Works (\$2,571,000), Regional Computer Center (\$14,000), Convention Center (\$65,000), General Aviation (\$0), Municipal Golf (\$1,000), Parking Facilities (\$2,000), and Stormwater Management (\$558,000).

Loans receivable of the special revenue funds are made from revolving type loan accounts financed by allocations from the City's Community Development Block Grant. These loans are secured by liens on the property. Federal regulations provide that the grantor maintains the ownership of the City's Community Development Block Grant funded revolving loan portfolio; accordingly, revolving loan fund transactions do not affect the operating statement. A small number of the special revenue loans, with a value of \$6,651,000, were made from Housing and Urban Development Section 108 funds and do not involve a revolving type loan account. The loans are repaid to the federal government. If the borrower fails to repay the loan, the City's Community Development Block Grant funds may be used to repay the federal government. The total amount receivable for the special revenue loans is offset by an allowance for uncollectible loans receivable. Special revenue loans receivable at December 31, 2003 total \$55,431,000.

Loans receivable of the capital project funds receive similar treatment to the special revenue funds' loans receivable, in that the total amount receivable is offset by an allowance for uncollectible loans receivable. The balance of the loans receivable at December 31, 2003 is \$1,725,000. This amount is related to Goodall Properties Ltd. and forgivable housing loans.

Cincinnati Development Loan Fund

The Cincinnati Housing Development Fund LLC (Fund) was created for the purpose of establishing and operating a fund to provide loans to developers for projects that include the acquisition, rehabilitation and new construction of market-rate housing. These projects must be within an area of the City suffering from population loss and disinvestment or urban blight. The members of the fund are U.S. Bank, NA, Provident Bank, and Fifth Third Bank.

Under the terms of an agreement dated February 28, 2003 between the City of Cincinnati and Financial Institutions which are members of the Housing Development Loan Fund LLC, the City committed \$15,000,000 to the Fund resulting in the three members of the Fund committing, in total, an additional \$100,000,000. The Fund's lending term began on February 28, 2003 and continues for a period of 10 years.

As loans are made by a Financial Institution a portion of funds provided by the City are transferred to a collateral account. In the event of default the Financial Institution will be repaid from the collateral account. Per the agreement the City has no right to the return of the City Funds with the exception of the earliest to occur (i) February 28, 2013 (ii) a Financial Institutions event of default or (iii) the Termination Date. Because the City's money is the collateral for these loans if they default and any potential repayment to the City will not occur for at least ten years the City does not have a corresponding receivable recorded.

16. CONTINGENT LIABILITIES

Federal and State Grants

The City has received Federal and State grants in excess of \$58 million for specific purposes that are subject to review and audit by the grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, the City Administration believes such disallowances, if any, will be immaterial.

Litigation

Various claims and lawsuits are pending against the City as of December 31, 2003. A liability of \$5.0 million was recorded for those claims and judgments as of December 31, 2003. Over the past decade, the City has averaged annual payments of \$2,045,000 for claim and lawsuit settlements. Adequate funds have been provided to meet the claims paid both from the General Fund and restricted funds of the City. The City Administration believes there is no foreseen problem in having adequate resources to settle presently known cases.

17. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health claims; unemployment compensation claims; and environmental damage. The City purchases commercial insurance to cover losses due to: theft of, damage to, or destruction of assets and purchases general liability insurance for specific operations and professional liability insurance for certain operations. All other risks of loss are self-insured by the City. There has been no reduction in insurance coverage from coverage in 2003. Insurance settlements for claims resulting from the risks covered by commercial insurance have not exceeded the insurance coverage in any of the past three years.

The City of Cincinnati provides the choice of two separate health insurance plans for its employees. Both of the plans are self-insured and accounted for as an internal service fund. This internal service fund, titled "Self Insurance - Medical" has been in existence since 1980. Operating funds are charged a monthly rate per employee, by type of coverage.

In 1990, the City began to account for and finance its risk of loss due to workers' compensation claims and established an internal service fund titled "Self Insurance - Workers' Compensation". Workers' compensation is administered by the State. The City reimburses the Bureau of Workers' Compensation for injured workers' claims. All funds of the City participate in the program and make payments to the internal service fund based on the experience premium that would normally be charged by the Bureau of Workers' Compensation. Policy years 1989 through 2000 were financed through the retrospective rating program. Policy years 2001 and 2002 were financed through the fully insured program with the State Fund workers' compensation program. Beginning with policy year 2003 the City has elected to be fully self-insured for workers' compensation. All of the City's workers' compensation liabilities are funded within the "Workers' Compensation - Self-Insurance" fund. Changes in the balances of claims liabilities and claims adjustment expenses during 2003 and 2002 are as follows:

(Amounts in Thousands)

	General		Water Works		Parking Facilities		Convention Center		Municipal Golf			
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>		
Balance at January 1	\$ 402	\$ 780	\$ 120	\$ 68	\$ 5	\$ 1	\$ 26	\$ 12	\$ 0	\$ 0		
Current-Year Claims and Changes in Estimates	340	612	51	205	3	6	(24)	22	2	1		
Claim Payments	(612)	(990)	(97)	(153)	(6)	(2)	(0)	(8)	(2)	(1)		
Balance at December 31	<u>\$130</u>	<u>\$402</u>	<u>\$74</u>	<u>\$120</u>	<u>\$ 2</u>	<u>\$ 5</u>	<u>\$ 2</u>	<u>\$26</u>	<u>\$ 0</u>	<u>\$ 0</u>		

	Stormwater Management		Income Tax Infrastructure		Self Insurance Medical		Workers Compensation		General Long-Term Obligations		Totals	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Balance at January 1	\$ 3	\$ 3	\$ 26	\$ 0	\$8,494	\$7,470	\$ 19,072	\$19,450	\$ 6,065	\$3,143	\$34,213	\$30,927
Current-Year Claims and Changes in Estimates	(1)	3	(3)	61	67,440	57,139	(906)	1,975	3,046	4,292	69,948	64,316
Claim Payments	(0)	(3)	(19)	(35)	(65,233)	(56,115)	(3,024)	(2,353)	(51)	(1,370)	(69,044)	(61,030)
Balance at December 31	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ 26</u>	<u>\$10,701</u>	<u>\$ 8,494</u>	<u>\$15,142</u>	<u>\$19,072</u>	<u>\$ 9,060</u>	<u>\$6,065</u>	<u>\$35,117</u>	<u>\$34,213</u>

The claims liabilities at December 31, 2003 for the Internal Service Funds above (Self-Insurance Medical and Workers Compensation) are included in the following liabilities in the balance sheet:

(Amounts in Thousands)

	Self Insurance Medical	Workers Compensation
Accounts Payable	\$ 2,531	\$ 9
Accrued Liabilities		4,997
Estimated Liability For Unpaid Claim	<u>8,170</u>	<u>10,136</u>
Total	<u>\$10,701</u>	<u>\$15,142</u>

18. SUBSEQUENT EVENTS

On February 4, 2004 and March 31, 2004 City Council authorized the taking of bids on \$44,365,000 of general obligation bonds to be dated May 6, 2004. The six bond issues sold at coupon rates from 4.50% to 5.25%, but with a bid premium of \$3,364,833 and original issue discount of \$22,994 the effective rates were from 1.15% to 4.88%. The bonds include tax support issues of \$14,140,000 for Public Building Improvements, \$5,945,000 for Equipment Improvements, \$16,415,000 for Street Improvements, \$4,080,000

for Current Refunding, \$2,130,000 for Urban Renewal Refunding and \$1,655,000 for Economic Development.

Also on March 31, 2004 City Council authorized the taking of bids on \$9,260,000 of general obligation bond to be dated May 6, 2004. The bond issue sold at coupon rates from 3.25% to 5.6%, but with a bid premium of \$65,103 and original issue discount of \$23,911 the effective rates were from 2.39% to 5.65%. The bond includes tax supported issue of \$9,260,000 for Economic Development.

Convention Facilities Authority (CFA)

The CFA is an up to 11-member body corporate and politic, organized and existing under Chapter 351 of the Ohio Revised Code, as amended. The CFA issued bonds netting proceeds of \$111,176,644 dated February 12, 2004 for the purpose of expanding and renovating the Convention Center in Cincinnati.

Pursuant to a Memorandum of Understanding between the City and Hamilton County, a cooperative agreement was reached between the City and Hamilton County and a Project Service Agreement between the City and the CFA. The City will: (i) own the Convention Center, (ii) be responsible for the operation and maintenance of the Convention Center and (iii) manage the design and construction of the expansion and renovation project. Construction is anticipated to commence in May 2004 and be completed in July 2006.

In the financial plan for the convention center expansion and renovation the dedicated Transient Occupancy Tax (City) and Lodging Excise Tax (County) is expected to cover the debt service for senior (\$70.1 million) and subordinate (\$35.9 million) debt. Pursuant to a Memorandum of Understanding between the City, Hamilton County and the Convention Facilities Authority (CFA), the City has agreed to guarantee, subject to annual appropriation, the principal and interest on subordinate debt. The first full year of debt service is \$1,908,427 and has been appropriated in 2004 from tax increment revenue. Maximum annual debt service is \$2,309,250.

19. PENSION AND RETIREMENT

City employees are covered by one of three pension systems. They are the Ohio Police and Fire Pension Fund (OP&F) and the Public Employees Retirement System (PERS), which are State pension systems, and the City of Cincinnati's Retirement System. Each of these three systems is a cost-sharing multiple-employer defined benefit pension plan.

Ohio Police and Fire Pension Fund

Plan Description

Police and Fire Fighters of the City of Cincinnati are members of the Ohio Police and Fire Pension Fund. The City of Cincinnati contributes to the (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy

Plan members are required to contribute 10.0% of their annual covered salary, while the City of Cincinnati is required to contribute 19.5% and 24.0% respectively for police officers and fire fighters. The City of

Cincinnati's contributions to OP&F for the years ending December 31, 2003, 2002, and 2001 were \$23,233,000, \$21,989,000, and \$21,857,000, respectively, equal to the required contributions for each year.

The OP&F informed the City that the City's only unfunded prior service cost of the fund is the deficiency existing at the time the fund was established in 1967 as determined by actuarial evaluation. On March 1, 2000 the City sold bonds for the refunding of the City's obligation for the employer's accrued liability. Pursuant to Section 742.30 of the Ohio Revised Code, the City and the OP&F (the Fund) have entered into an agreement which permitted the City to make a one-time payment to the Fund for the purpose of extinguishing the City's obligation to the Fund for employer's accrued liability. The payment amount was \$41,454,864 which represents 68% of the first \$500,000 of the employer's accrued liability and 70% of the balance, plus accrued interest on the full amount of such accrued liability from March 1, 2000 to the date of payment.

Other Post employment Benefit Information

OP&F provides post-retirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by the police and firefighters' retirement system is considered an Other Postemployment Benefit (OPEB). A portion of each employer's contribution to the Police and Fire Pension Fund is set aside for the funding of postemployment health care. The Ohio Revised Code provides the statutory authority allowing the fund's board of trustees to provide health care coverage to all eligible individuals. Health care funding and accounting are on a pay-as-you-go basis. In 2003, 7.75% of covered payroll was used to pay retiree health care expenses. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2002, the date of the last actuarial valuation available was 13,527 for police and 10,396 for firefighters. The portion of the City's 2003 contributions that was used to pay postemployment benefits was \$4,783,196 for police and \$3,612,635 for firefighters. The total health care expense of the fund for the year ending December 31, 2002, the date of the last actuarial valuation available, was \$141,028,006, which was net of member contributions of \$12,623,875.

State PERS

Plan Description

Only City employees who were members in the Public Employees Retirement System of Ohio (PERS) or another Ohio State Retirement System prior to their City employment, City personnel employed in the building crafts trade since 1961, elected officials and certain part-time employees are enrolled in PERS.

PERS is a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to PERS, 277 East Town Street, Columbus, Ohio 43215-4642 or calling (614) 466-2085.

Funding Policy

The Ohio Revised Code provides statutory authority for employee and employer contributions. Employees contribute 8.5% of their annual compensation. The City's contribution rate for 2003 was 13.55% of covered payroll: 8.55% was the portion used to fund pension obligations and 5.00% was used to fund health care for

2003. City of Cincinnati's contributions to PERS for the years ending December 31, 2003, 2002, and 2001, were \$2,069,000, \$1,943,000, and \$1,822,000 respectively, equal to the required contributions for each year.

Other Postemployment Benefit Information

PERS provides postemployment health care coverage to age and service retirees with ten or more years of qualifying service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by PERS is considered an Other Postemployment Benefit (OPEB). A portion of each employer's contribution to PERS is set aside for the funding of postemployment health care. The Ohio Revised Code provides statutory authority for employer contributions.

OPEB are advance-funded on an actuarially determined basis. The number of active contributing participants at year-end 2003 was 364,881. The portion of the City's employer contribution that was used to fund postemployment benefits was \$763,571. The actuarial value of PERS net assets available for OPEB was \$10,000,000,000 at December 31, 2002. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18,700,000,000 and \$8,700,000,000 respectively.

City of Cincinnati Retirement System

Plan Description

The City of Cincinnati Retirement System is a cost-sharing multiple-employer defined benefit pension plan. The System provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The System is considered part of the City of Cincinnati's financial reporting entity and is included in the City's financial report as a pension trust fund, see pages 30 and 31. No separate financial report is issued. Article XV of the Administrative Code of the City of Cincinnati provides the statutory authority vesting the general administration and responsibility for the proper operation of the System in the Board of Trustees of the City of Cincinnati Retirement System. There are four employers that contribute to the plan. They are the City of Cincinnati, University of Cincinnati, University Hospital and Hamilton County. Membership of the Retirement System of the City consisted of the following at December 31, 2003, the date of the latest actuarial valuation:

	<u>Pension</u>	<u>Health care</u>
Retirees and beneficiaries receiving benefits	4,369	4,369
Terminated plan members entitled to future benefits	153	153
Active plan members:		
Vested	2,975	1,787
Nonvested	<u>2,731</u>	<u>3,919</u>
Total	<u>10,228</u>	<u>10,228</u>

1,996 of the Nonvested members are part-time employees who are included in the system to comply with the Omnibus Budget Reconciliation Act of 1990, which mandated the inclusion of certain classifications of employees either in state or municipal retirement systems or the Federal Insurance Contribution Act (Social Security). The City of Cincinnati's Retirement System covers the majority of non-uniformed City employees and a closed group of members from other employers which includes employees of the University of Cincinnati and University Hospital who joined before control of these institutions was transferred to the State of Ohio, and former City employees staying with various operations transferred to the control of Hamilton County.

The service retirement allowance vests after five years of creditable service. Medical care benefits vest after fifteen years of creditable service, or if hired before January 9, 1997 after reaching age sixty with at least five years of creditable service. Any member in service may retire at any age upon completing thirty or more years of membership service or at age 60 with at least five years creditable service, with a retirement allowance commencing immediately; or any member upon completing five years of creditable service before age sixty may retire with a retirement allowance commencing at age sixty, provided, however, at the time of election of the deferred annuity there is no loan outstanding against his contributions.

The annual retirement allowance is equal to 2.5% of the average of the three highest years' compensation multiplied by the number of years of membership service. Employees hired before July 12, 1998 elected either the 2.5% or a 2.22% formula which factors in overtime pay and lump sum payments for vacation, sick leave and compensatory balances. All new employees hired July 12, 1998 and thereafter are subject to the 2.5% formula. Pensions are increased by 3% compounded annually commencing one year after retirement. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by the Cincinnati Municipal Code.

Contributions

Each member contributes at a rate of 7% of his salary until his retirement. This percent contributed by the employees is fixed by the fund's Board of Trustees on the basis of authority provided by Chapter 203 Section 77 of the Cincinnati Municipal Code. The City makes annual employer contributions based on a percentage of the salaries of all members. The contribution rate for 2003 was 7% for all employers. The Board has adopted a policy of applying the net employer contribution rate to the second following year after the actuarial valuation. City of Cincinnati's contributions to the City of Cincinnati Retirement System for the years ending December 31, 2003, 2002 and 2001 were \$11,929,000, \$11,974,000 and \$12,454,000, respectively equal to the required contributions for each year. Administrative costs are financed from the system assets. The unfunded actuarial accrued liability for pension costs as of December 31, 2003 was \$81,133,000 to be amortized over 15 years.

Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting - The City of Cincinnati Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - The Retirement System investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchange are valued at the last reported sales price at current exchange rates.

Securities Lending - The Retirement System securities lending program disclosures are presented in accordance with Governmental Accounting Standards Board Statement 28, Accounting and Financial Reporting for Securities Lending Transactions. The disclosures are located in Footnote 2 – Deposits with Financial Institutions and Investments and on the statement of plan net assets and statement of changes in plan net assets.

Derivatives – The Retirement System derivative disclosures are presented in accordance with Governmental Accounting Standards Board Technical Bulletin No. 94 –1, Disclosures about Derivatives and Similar Debt and Investment Transactions and can be found in Footnote 2 – Deposits with Financial Institutions and Investments.

Other Postemployment Benefit Information

The System provides hospital and surgical insurance and dental and vision insurance to retired members who have earned fifteen years credited service at the time of termination or terminate after age sixty with five years credited service. Those who are receiving survivor benefits of eligible members are entitled to have their hospital and surgical insurance and dental and vision insurance premiums paid by the System. When benefits would be reduced by reason of the retired member's eligibility for hospital and medical benefits under federal social security laws, the System will pay whatever additional fees are required for the federal medical coverage.

The health care coverage provided by the System is considered an Other Postemployment Benefit (OPEB). It is advance-funded on an actuarially determined basis as a portion of the employer contribution requirement to the System. The Cincinnati Municipal Code provides authority for employer contributions.

The actuarial assumptions used for the December 31, 2003 valuation included an assumption for hospital and surgical benefits recognizing adjusted premiums based on experience for recent years adjusted to current year by assumed annual increases in premium costs. The cost of OPEBs are recognized as an expense as claims are paid. The employer contribution that was used to fund postemployment benefits was \$3,108,000. The actuarial value of the System's net assets available for OPEB at December 31, 2003 was \$724,049,000. The actuarially accrued liability based on the actuarial cost method used was \$782,698,000. The unfunded actuarial accrued liability for postemployment benefits at December 31, 2003 was \$58,649,000 to be amortized over 15 years.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/03
Actuarial cost method	Individual entry age normal
Asset valuation method	The actuarial value of assets is being reset to market value of assets as of December 31, 2003. For future years, asset gains and losses will be recognized at the rate of 20% per year. The investment gain/(loss) is taken as the excess of the actual return on assets over the expected return on assets. The investment gain/(loss) is then recognized at 20% per year until fully recognized. The actuarial value of assets is the market value minus the sum of the deferred investment gains/(losses) during the preceding five plan years. In addition, the actuarial value is restricted to be no less than 80% of the market value or no more than 120% of the market value.
Actuarial assumptions:	
Investment rate of return*	8.75% per year, net of expenses, compounded annually.
Mortality	
Non-disabled lives:	Uninsured Pensioner 1994 Mortality Table projected to 2009
Disabled Retirees:	Pension Benefit Guarantee Corp. Disabled Mortality Table

Turnover	2000 City of Cincinnati Rate of Termination Experience Table
Disability	1995 City of Cincinnati Disability Retirement Experience Table
Salary increases	Salary increases are assumed to vary by service. For those who had not elected the 2.50% formula an additional 10% assumption increase in average salary is used to reflect final lump sum payments.
Hospital and Surgical Benefits	Adjusted premiums are based on experience for recent years adjusted to current year by assumed annual increase in premium costs.
Medicare Part B	Premiums are assumed to increase in accordance with estimates from the 2004 (2002 last year) Annual Report of the Board of Trustees (previously the Congressional Budget Office) until the year 2013 (2011 last year) and then increase at 5.0%(5.5% last year) per year thereafter. 2004 Part B Premiums are \$799.
Dental Benefits	Premiums are set at \$206 (prior year \$278) and are assumed to increase at a decreasing rate, starting at 6.25% for 2004, then decreasing by 0.25% per year to 4.5% and remaining there for 15 years, then decreasing gradually over 17 years to zero. This takes the \$1,000 fixed cap on annual dental costs into account.
Vision Benefits	The vision premium is \$24 (prior year \$40) per year. The benefit level is fixed; however we anticipate a 0.5% annual increase in costs to take increases in administrative costs into account.
Option Electives:	75% of male participants and 25% of female participants will have a spouse who is covered under the medical benefit portion of the plan. Of these participants with a covered spouse, 85% will elect a Joint & Survivor option.
*Inflation rate	No assumption.
Cost-of-living adjustments	3% compound interest

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

(AMOUNTS IN THOUSANDS)

PENSION PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/97	\$ 1,250,997	\$1,214,573	(\$36,424)	103.00 %	\$181,547	(20.06) %
12/31/98	1,411,847	1,235,332	(176,515)	114.29	181,691	(97.15)
12/31/99	1,554,854	1,378,625	(176,229)	112.78	184,477	(95.53)
12/31/00	1,627,207	1,439,180	(188,027)	113.06	182,556	(103.00)
12/31/01	1,699,977	1,473,359	(226,618)	115.38	191,756	(118.18)
12/31/02	1,623,059	1,586,583	(36,476)	102.30	186,266	(19.58)
12/31/03	1,555,672	1,636,805	81,133	95.04	184,407	44.00

HEALTHCARE PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/97	\$548,239	\$532,277	(\$15,962)	103.00 %	\$181,547	(8.79) %
12/31/98	624,185	504,851	(119,334)	123.64	181,691	(65.68)
12/31/99	696,701	531,059	(165,642)	131.19	184,477	(89.79)
12/31/00	736,491	623,386	(113,105)	118.14	182,556	(61.96)
12/31/01	775,960	845,443	69,483	91.78	191,756	36.24
12/31/02	748,291	757,166	8,875	98.83	186,266	4.76
12/31/03	724,049	782,698	58,649	92.51	184,407	31.80

SCHEDULE OF EMPLOYERS' CONTRIBUTIONS

(AMOUNTS IN THOUSANDS)

PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
1997	\$23,335	106.80 %
1998	14,560	127.83
1999	0	N/A
2000	0	N/A
2001	0	N/A
2002	3,980	218.99
2003	14,854	58.68

HEALTHCARE PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
1997	\$7,778	106.80 %
1998	4,853	127.83
1999	0	N/A
2000	0	N/A
2001	0	N/A
2002	1,327	304.45
2003	4,951	81.60